

Message Text

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43

ORIGIN NEA-10

INFO OCT-01 ISO-00 EB-07 COME-00 TRSE-00 FRB-03 ABF-01

OMB-01 /023 R

DRAFTED BY NEA/PAB:MGJONES/MW
APPROVED BY NEA/PAB:PDCONSTABLE
EB/IFD/ODF:NRIEGG (DRAFT)

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R 210344Z JAN 76
FM SECSTATE WASHDC
TO AMEMBASSY ISLAMABAD
INFO AMCONSUL KARACHI

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E.O. 11652: N/A

TAGS: EFIN, PK, XF

SUBJECT: SHORT-TERM FOREIGN CURRENCY DEPOSITS FROM
MIDDLE EAST

REF: AMSTUTZ-AHMED MEMCON, DECEMBER 10, 1975

1. DEPARTMENT IS PUZZLED BY COMMENT OF PRIVATE BANKER
(REFERENCED MEMCON) THAT STATE BANK IS RELUCTANT TO ACCEPT
ADDITIONAL MIDDLE EAST HARD-CURRENCY DEPOSITS. IT SEEMS
TO US INFLATION SHOULD NOT BE A PROBLEM, SINCE STATE BANK
MONETARY CONTROLS WOULD EFFECTIVELY HANDLE LOCAL-CURRENCY
EXPANSION. IT MAY BE THAT GOP FEARS VOLATILITY OF SUCH
DEPOSITS, AND HAS USED "INFLATION" ARGUMENT AS OFFICIAL
JUSTIFICATION.

2. VOLATILITY PROBLEMS OF PRIVATE DEPOSITS WOULD SEEM TO
BE MAINLY CONCERN FOR PRIVATE BANKS ACCEPTING THEM. WHILE
STATE BANK COULD REQUIRE MUCH HIGHER RESERVE LEVELS AND
OTHER SAFEGUARDS FOR USING OR INTERMEDIATING VOLATILE
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FOREIGN EXCHANGE IN NONRESIDENT ACCOUNTS (I.E., TO AVOID

TEMPTATION FOR GOP AGENCIES TO OVERUTILIZE SUCH RESOURCES),
SUCH UNDERTAKINGS WOULD SEEM WITHIN THE COMPETENCE OF
PAKISTANI FINANCIAL MANAGERS.

3. OUR CONCERN IS MORE THAN ACADEMIC, SINCE SUCH FOREIGN
CURRENCY DEPOSITS COULD BE IMPORTANT TO PAKISTAN, GIVEN
PRESENT DIRE BALANCE OF PAYMENTS SITUATION. WOULD APPRE-
CIATE YOUR THOUGHTS ON THIS QUESTION, USING SUCH LOW-KEY
SOUNDINGS AS WOULD BE APPROPRIATE.

4. DECONTROL JANUARY 1977. SISCO

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NNN

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